Financial and Managerial Accounting 20th edition Williams Solutions Manual

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1 ACCOUNTING: INFORMATION FOR DECISION MAKING

Chapter Summary

Our financial reporting system has changed greatly over the past 50 years and will continue to change. The financial world is experiencing unparalleled challenges, such as globalization, changing regulation, and the widespread use of technology. In the midst of these changes is the accounting profession that must provide reliable and relevant information to users. This chapter introduces accounting to the student as the means of providing the information to support sound business decisions. Three broad types of accounting information; financial, management, and tax accounting are introduced and discussed. The production and communication of information within an accounting system is introduced at the outset of the chapter.

The focus then shifts to the various consumers of accounting information and the uses to which they put that information. External users are discussed first with the natural emphasis placed on the decision-making needs of investors and creditors. Financial accounting information is used primarily to assist these users in deciding where to place their scarce investment resources. Businesses must balance their desire to earn a return for its investors and creditors with its responsibility to operate in a socially responsible manner. This segment of the chapter concludes with an exhibit of the Pathways Model of accounting which describes accounting as using critical thinking skills to produce useful information that ultimately leads to good decisions and a prosperous society.

The orientation of the chapter now shifts to decision-making by parties internal to an organization and how internal accounting supports these decisions. Internal users are very broadly defined as all employees of the organization. Employees are supported by the internal accounting information system in three ways. First, the internal accounting system assigns decision-making authority over the organization's resources to employees. Second, the internal accounting system provides the information required to make decisions regarding these resources. Finally, employee performance is regularly evaluated and rewarded based on information supplied by the internal accounting system. The characteristics of internal accounting information are discussed at length. This discussion makes the student aware of the distinctions between financial and internal accounting.

The main body of the chapter closes with a discussion of the sources of integrity of accounting information. We introduce institutional features that contribute to the integrity of the information including, accounting principles and standards, systems of internal control, and audits of financial information. The roles played by professional organizations such as the AICPA, IMA, IIA, AAA, and COSO are discussed. We close by emphasizing the critical importance of the competence, judgment, and ethical behavior of professional accountants.

The chapter continues with an overview of career opportunities offered by the accounting profession. Opportunities in public, management, and government accounting are surveyed, as are career paths in education. We take this opportunity to distinguish between accounting and bookkeeping and to explain the limited role played by bookkeeping activities.

The chapter then concludes with a section on ethics and social responsibility and highlights the importance of public trust when it comes to making critical financial decisions. While the focus of the textbook is primarily on the use of accounting information for financial

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decisions, there's ever increasing pressure from society as a whole to expect businesses to operate in a socially responsible way.

Learning Objectives

1. Discuss accounting as the language of business and the role of accounting information in making economic decisions.

2. Discuss the significance of accounting systems in generating reliable accounting information and understand the five components of internal control.

3. Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.

4. Explain the importance of accounting information for internal parties–primarily management–in terms of the objectives and the characteristics of that information.

5. Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.

6. Identify and discuss several professional organizations that play important roles in preparing and communicating accounting information.

7. Discuss the importance of personal competence, professional judgment, and ethical behavior on the part of accounting professionals.

8. Describe various career opportunities in accounting.

Brief Topical Outline

A. Accounting information: a means to an end
   1. Accounting from a user's perspective
   2. Types of accounting information
      a. Financial accounting—see *Case in Point*
      b. Management accounting
      c. Tax accounting

B. Information systems
   1. Determining information needs
   2. The cost of producing accounting information
   3. Basic functions of an information system
   4. Who designs and installs information systems?
   5. Components of internal control

C. Financial accounting information
   1. External users of accounting information
   2. Objectives of external financial reporting—see Your Turn
   3. Characteristics of externally reported information

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a. Financial reporting—a means
b. Financial reporting versus financial statements
c. Historical in nature
d. Inexact and approximate measures
e. General-purpose assumption
f. Usefulness enhanced via explanation

D. Management accounting information
1. Users of internal accounting information—see Exhibit 1–5
2. Objectives of management accounting information
3. Characteristics of management accounting information
a. Management accounting information—a means
b. Importance of timeliness
c. Identity of decision maker
d. Oriented toward the future
e. Measures of efficiency and effectiveness

E. Integrity of accounting information
1. Institutional features
a. Standards for the preparation of accounting information
b. Securities and Exchange Commission
c. Financial Accounting Standards Board
d. International Accounting Standards Board—see *Case in Point* (page **20**)
e. Public Company Accounting Oversight Board
f. Audits of financial statements
g. Legislation
2. Professional organizations
a. American Institute of CPAs (AICPA)
b. Institute of Management Accountants (IMA)
c. Institute of Internal Auditors (IIA)
d. American Accounting Association (AAA)
e. Committee of Sponsoring Organizations of the Treadway Commission (COSO)
3. Competence, judgment, and ethical behavior—see *Ethics, and Social Responsibility*, Exhibit 1–6, and *Your Turn*

F. Careers in accounting
1. Public accounting
a. The CPA examination
2. Management accounting
3. Governmental accounting
a. The GAO: who audits the government?
b. The IRS: audits of income tax returns
c. The SEC: the “watchdog” of financial reporting
4. Accounting education
5. What about bookkeeping?
6. Accounting as a stepping-stone7.But what about me? I’m not an accounting major

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G. Concluding remarks

Topical Coverage and Suggested Assignments

Class Meetings On Chapter	Topical Outline Coverage	Discussion Questions*	Brief Exercises*	Exercises*	Problems*	Critical Thinking Cases*
1	A – C	1, 2, 4	1, 3	1, 3, 4	n.a.	2
2	D – G	5, 9, 15	5, 6, 7, 8	7, 8, 9, 10, 12	n.a.	4

*Homework assignment (to be completed prior to class)

Comments and Observations

Teaching Objectives for Chapter 1

Chapter 1 introduces students to the users of accounting information including both internal and external stakeholders. The objectives and characteristics of externally reported accounting information and internal accounting information are explained and contrasted with one another. The sources of integrity of accounting information are explained. Career opportunities in accounting are also discussed. In the class meetings relating to this introductory chapter our primary teaching objectives are to:

1. Explain the nature and requirements of the course.

2. Impress upon students the importance of keeping up with the coursework and completing homework assignments on a timely basis. Impress upon students that accounting is a cumulative knowledge subject. Students lost in Chapter 1 will likely have trouble the rest of the semester.

3. Describe the general purpose of accounting and various uses of accounting information. Explain the focus of this course relative to other accounting courses.

4. Provide an overview of external financial reporting.

5. Explain the nature of internal accounting and the information needs of internal users of accounting information.

6. Discuss the factors responsible for assuring the integrity of accounting information.

7. Briefly describe some career opportunities in accounting and explain why an understanding of accounting is useful to people other than professional accountants.

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General Comments

Getting started. During the first class meeting, we find it helpful to acquaint the students with the learning materials, including any applicable supplements. As accounting can be challenging for some students, it's important to ensure that they are familiar with the resources and study tools available to them.

It is the nature of accounting that new concepts tend to build upon those that have come before. Therefore, we place a high priority on impressing the students with the importance of getting right to work and of keeping up with the progress of the class. Our experience has shown repeatedly that students who get off to a slow start or who fall behind early in the course will have increasing difficulty as the course progresses.

"Accounting" is much more than crunching numbers. In teaching accounting, it too often happens that all available class time is spent demonstrating mechanical techniques and solving quantitative problems. Many students, however, have very little understanding of the environment in which accounting information is developed and used. Without this understanding, the relevance of accounting procedures and computations may not be apparent.

We urge instructors to give appropriate classroom time to introducing this environment. We favor in-class reviews of assignments emphasizing the ***use*** and ***interpretation*** of accounting information. This is especially true of the *Your Turn* and *Case in Point* cases included within the main body of the text. In addition, those problems that involve well-known companies introduce elements of the business community with which the student is at least partially familiar.

We also encourage instructors to address the many ***nonquantitative*** aspects of accounting, such as the information needs of decision-makers, accounting theory, systems design, internal control, auditing, ethics, and issues involving professional judgment. If students are to really "learn accounting," these topics deserve attention in both the classroom and in the textbook. One of our major goals in this twentieth edition is to offer examples, text discussions, and assignment materials that better illustrate what accounting "is all about."

In covering Chapter 1, we like to provide students with an overview of both the external and internal reporting process. Exercises ***3*** and ***10*** provide a good framework for this discussion. (Note: These exercises are also listed in the assignment table. If you are planning to use them as a discussion, you may wish to assign other exercises.) We also like to discuss Case ***1*** in class. The Internet case for this chapter provides an excellent opportunity to show students how they can use the Internet to perform financial research, retrieve reports, and locate reliable guidance.

Supplemental Exercises

Group Exercise

Have student groups research reputable job posting websites such as Monster, Indeed, Career Builder, and Robert Half and report at least three career options available in the field of accounting. Have the students explain how the foundations learned in Chapter 1 might support the job responsibilities of the selected positions.

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Internet Exercise

Access the Microsoft home page. Under the "Company" heading at the bottom of the screen, click *Investors*. Click on the link for the most recent Annual Report. In the *Management's Discussion and Analysis* section, review the rate of growth of Microsoft revenues. How did each segment perform for the years presented? In your opinion, which segment do you feel has the highest potential for growth in the future and why? What impression does the auditor's report convey?

CHAPTER 1 **NAME**_____#_____

10-MINUTE QUIZ A **SECTION**_____

Indicate the best answer for each question.

1. The best definition of an accounting system is:
- **a** Journals, ledgers, and worksheets.
- **b** Manual or computer-based records used in developing information about an entity for use by managers and also persons outside the organization.
- **c** The personnel, procedures, devices, and records used by an entity to develop accounting information and communicate this information to decision makers.
- **d** The concepts, principles, and standards specifying the information which should be included in financial statements, and how that information should be presented.

2. Suppose a number of your friends have organized a company to develop and sell a new software product. They have asked you to loan them $7,000 to help get the company started, and have promised to repay your $7,000 plus 10% interest in one year. Of the following, which amount may be described as the return on your investment?
- **a** $7,000.
- **b** $ 700.
- **c** $7,700.
- **d** None of these is the correct amount.

3. Which of the following is generally *not* considered one of the general purpose financial statements issued by a corporation?
- **a** Budget forecast.
- **b** Statement of financial position (balance sheet).
- **c** Income statement.
- **d** Statement of cash flows.

4. All of the following are characteristics of management accounting, *except*:
- **a** Reports are used primarily by insiders rather than by persons outside of the business entity.
- **b** Its purpose is to assist managers in planning and controlling business operations.
- **c** Information must be developed in conformity with generally accepted accounting principles or with income tax regulations.
- **d** Information may be tailored to assist in specific management decisions.

5. Which of the following is *not* an objective of financial reporting?
- **a** Provide information useful in assessing amount, timing, and uncertainty of future cash flows.
- **b** Provide information useful in making investment and credit decisions.

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c Provide information about economic resources, claims to resources, and changes in resources and claims.
d Provide information to guarantee the enterprise achieves its goals, objectives, and mission.

CHAPTER 1 **NAME**_____#__

10-MINUTE QUIZ B **SECTION**_____

Match the organizations on the left with the descriptions on the right. Each description should be used only once.

Organization	Description
_____Financial Accounting Standards Board	**a.** Government agency that regulates financial reporting by publicly held companies.
_____Securities and Exchange Commission	**b.** International organization dedicated to the advancement of internal auditing.
_____American Accounting Association	**c.** Private organization most directly involved in the development and issuance of accounting standards.
_____Institute of Internal Auditors	**d.** Organization dedicated to the advancement of accounting education and research.
_____American Institute of CPAs	**e.** Organization most involved with the ethical conduct of the accountants working within a company.
_____Institute of Management Accountants	**f.** Organization that develops formal standards for auditing private companies in the United States.
_____Internal Revenue Service	**g.** A government agency that handles income tax returns of individuals and businesses and performs an audit function to verify the data presented.
_____International Accounting Standards Board	**h.** An organization that develops international accounting standards.
_____Committee of Sponsoring	**i.** An organization dedicated to improving organizational performance through developing guidance on fraud deterrence, ethics, internal controls, and corporate governance.

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CHAPTER 1 **NAME**_____#__

10-MINUTE QUIZ C **SECTION**_____

The following is a list of various characteristics of accounting information. In the space provided identify each as a characteristic of either financial or management accounting information.

1. The information is summarized in a set of statements distributed to the public.

2. The information is historical in nature. It reports the results of events and transactions that have already occurred.

3. The timeliness of the information is more critical than its completeness.

4. To increase its usefulness to investors and creditors, the information is usually accompanied by explanations from management.

5. The information is intended to be used for planning and control decisions.

CHAPTER 1 **NAME**_____#__

10-MINUTE QUIZ D **SECTION**_____

Provide concise written answers to the following:

1. Investors and creditors are interested in a company's "cash flow prospects." What two specific concerns of investors and creditors are summarized by the term "cash flow prospects?"

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2. List three financial statements that are used to communicate financial accounting information to interested external parties.

3. Provide a brief example to illustrate that externally reported financial accounting information must be based in part on estimates, judgments, and assumptions.

4. Briefly explain how generally accepted accounting principles enhance the integrity of financial accounting information.

SOLUTIONS TO 10-MINUTE QUIZZES

QUIZ A
1. C
2. B
3. A
4. C
5. D
Learning Objective: 2, 3, 4

QUIZ B

Financial Accounting Standards Board	**c**
Securities and Exchange Commission	**a**
American Accounting Association	**d**
Institute of Internal Auditors	**b**
American Institute of CPAs	**f**
Institute of Management Accountants	**e**
Internal Revenue Service	**g**
International Accounting Standards Board	**h**
Committee of Sponsoring Organizations	**i**

Learning Objective: 6

QUIZ C
1. Financial
2. Financial
3. Management
4. Financial

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5. Management
Learning Objective: 3, 4

QUIZ D
1. Return of investment and return on investment.
2. Statement of financial position (balance sheet)
Income statement
Statement of cash flows
3. To account for the use of long lived equipment, estimates must be made of the lifetime and scrap value of that equipment
4. Adherence to generally accepted accounting principles assures comparability of accounting information among organizations.
Learning Objective: 2, 3, 5

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Assignment Guide to Chapter 1

	Brief Exercises	Exercises	Cases				Net
Item Number	1 – 10	1 – 16	1	2	3	4	5
Time estimate (in minutes)	< 10	< 15	15	15	15	30	30
Difficulty rating	E	E	E	M	E	M	M
Learning objective:							
1. Discuss accounting as the language of business and the role of accounting information in making economic decisions.		1, 16					
2. Discuss the significance of accounting systems in generating reliable accounting information and understand the five components of internal control.	2				√		
3. Explain the importance of financial accounting information for external parties—primarily investors and creditors—in terms of the objectives and the characteristics of that information.	1, 3	2, 3, 6, 7, 9, 16		√			
4. Explain the importance of accounting information for internal parties—primarily management—in terms of the objectives and the characteristics of that information.		2, 7, 9, 10					
5. Discuss elements of the system of external and internal financial reporting that create integrity in the reported information.	4, 5, 6	4, 7, 12, 13, 16	√				
6. Identify and discuss several professional organizations that play important roles in preparing and communicating accounting information.	7, 8	5, 8, 11					√
7. Discuss the importance of personal competence, professional judgment, and ethical behavior on the part of accounting professionals.	9	7, 14				√	√
8. Describe various career opportunities in accounting.	10	15					

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